

NEWS RELEASE

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DeNUCCI FINDS FINANCIAL IRREGULARITIES AT QUINCY CHILD CARE FACILITY

State Auditor Joe DeNucci reported today that a lack of internal controls and accountability at the Heritage School, Inc., a state-funded child care facility in Quincy, resulted in highly questionable and unnecessary expenditures and unrecorded and unpaid liabilities.

According to DeNucci's audit, which was requested by the Office of Child Care Services, the school's president was not able to document the business nature of more than \$44,000 in expenditures, including purchases made by check, checks made out to the president, ATM debit purchases and ATM cash withdrawals. The president had sole control of the school's checking account as well as the ATM card for this account.

In one unusual transaction, DeNucci said \$2,300 in checks were made payable to the president during a three-day period last year without any explanation of the nature of these expenses. In addition, almost \$800 in cash withdrawals were made by the president over a three-day period, as well as two ATM withdrawals totaling more than \$200 on the same day in New Hampshire. Without documentation of the business purpose of these expenditures, these costs are considered non-reimbursable under state regulations.

Furthermore, DeNucci's audit determined that the school's failure to reconcile the checking account during the 20-month audit period resulted in it being assessed insufficient fund fees totaling \$1,312, charges that also may not be covered by state contracts. The president's explanation was that in her opinion, there would always be enough revenue to pay agency expenses and that the fees were "necessary business expenses."

The audit also found the school to be behind in its bills, owing the Massachusetts Department of Revenue almost \$9,200 in payroll taxes, some of it in penalties and interest, and more than \$3,000 in back rent to its landlord, Quincy Point Congregational Church.

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In view of these findings, DeNucci said the Commonwealth cannot be assured that \$133,000 in state funds allocated to the Heritage School during the 20-month audit period were appropriately spent. Because the school did not make all of its records available to the audit staff, DeNucci said it was impossible for his office to determine the precise amount that the school should reimburse the state for unallowable costs. As a result, DeNucci recommended that the Office of Child Care Services determine the amount that state should recover.

In other findings, DeNucci's audit revealed that the school, contrary to state law, does not have a board of directors to oversee its operations, a condition that contributed to its lack of fiscal responsibility. Also, DeNucci disclosed that the school failed to file required tax forms and financial statements with state and federal agencies. As a result, the Internal Revenue Service and the Attorney General's Office have been unable to adequately assess the school's activities and its compliance with state and federal regulations.

"These serious lapses in record keeping and accountability at the Heritage School were disturbing," DeNucci said. "The school failed to adhere to the most basic accounting principles, such as the need to document the business nature of all purchases and other expenditures. I hope this audit results in stronger safeguards to protect the school's financial operations and ensure that it spends state funds in accordance with all applicable regulations."

DeNucci's report is being forwarded to the appropriate state regulatory and oversight agencies for their review.

